

# City of Detroit


## CITY COUNCIL

IRVIN CORLEY, JR.  
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ANNE MARIE LANGAN  
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(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: June 29, 2007

RE: Budget Department Quarterly Financial Report for the Period  
Ending March 31, 2007

On May 30, 2007 the Budget Department submitted to your Honorable Body the Quarterly Financial Report for the period ending March 31, 2007 as required by court order (Attachment I).

Overall the Budget Department continues to report a \$30.6 million deficit for the 2006-07 fiscal year as was discussed during the 2007-08 Budget deliberations. As your Honorable Body is aware, in the proposed budget the Administration depended on \$58 million in proceeds by June 30, 2007 from the tunnel deal to reduce the deficit to \$30.6 million.

However, Council did not have enough documentation to vote on the deal, and took it out of the budget, replaced it with a proposed sale of fiscal stabilization bonds to the tune of \$58 million that would take place in fiscal year 2007-08, and overrode the Mayor's veto by a unanimous vote to keep the bonds in the 2007-08 budget.

Consequently, Council's action of taking out the proceeds from the tunnel deal increased the prior year's deficit appropriation by \$58 million. So, the total in the prior year's deficit appropriation is now \$88.6 million, which means that the deficit at June 30, 2007, as reflected in the 2007-08 budget, is approximately \$89 million.

However, based on our current analysis, using revenue/expenditure data through May 31<sup>st</sup>, or eleven months worth, from the financial reporting system, with assumptions shows an estimated deficit at June 30, 2007 of **\$134 million**, as depicted in Table 1 below.

Table 1  
Budget Surplus/(Deficit) Projection Comparison  
(In Millions of Dollars)

	Per Budget Dept. @ 3/31/2007(1)	Per Fiscal Anal. Div. @ 5/31/2007	Difference
Municipal Income Tax	\$7.0	(\$11.2)	(\$18.2)
State Revenue Sharing	(8.1)	(10.7)	(2.6)
Property Taxes	8.0	14.5	6.5
Casino Wagering Taxes	(4.6)	(5.5)	(0.9)
Solid Waste Fee	7.0	(13.4)	(20.4)
Utility User's Taxes	4.0	(2.5)	(6.5)
Sale of Property	0.0	(6.6)	(6.6)
Tunnel Deal	58.0	0.0	(58.0)
All Other Revenues	(11.1)	(76.2)	(65.1)
<b>Revenue Total</b>	<b>\$60.2</b>	<b>(\$111.6)</b>	<b>(\$171.8)</b>
<b>Appropriation Estimate</b>	<b>(\$2.8)</b>	<b>\$70.0</b>	<b>\$72.8</b>
6/30/2006 CAFR Accumulated			
Deficit Estimate	(\$155.0)	(\$159.1)(2)	(\$4.1)
Plus, 2006-07 Prior Year Deficit Appropriation	67.0	67.0	0.0
Unappropriated Prior Year's Deficit	(\$88.0)	(\$92.1)	(\$4.1)
<b>Total 2006-07 Surplus/(Deficit) Projection</b>	<b>(\$30.6)</b>	<b>(\$133.7)</b>	<b>(\$103.1)</b>

(1) Budget information was obtained primarily through the 2007-08 budget process in April/May 2007. Some information comes from Budget's Quarterly Financial Report as of March 31, 2007, per attached.

(2) This is the latest estimate we have from Finance.

As can be seen, our deficit estimate is \$103.1 million higher than the Budget Department's. It is also \$45.1 million higher than the \$88.6 million figure that is now in the 2006-07 Prior Year's Deficit appropriation approved by your Honorable Body during the budget process.

Obviously, a huge difference in our estimate from Budget's is the un-realization of the tunnel deal by June 30<sup>th</sup>. But we are also much more conservative on our revenue estimates, even though we are cautiously more optimistic on the appropriation side. Below gives some more detail on our estimate based on the information in Table 1.

**Municipal income tax** Our \$11.2 million deficit projection is based on collection data, a projected upswing in June due to accruals using 2005-06 data, and projected refunds of \$25 million. Budget's \$7 million surplus projection includes a 5% decline from 2005-06 collections of \$284 million plus some up tick from



taxes from buyouts. We feel a higher number of job losses have occurred given the current state of the local economy, coupled with any job replacements paying at a much lower salary, makes Budget's projection optimistic.

**State revenue sharing** Our \$10.7 million deficit projection is based on the State's revenue sharing May 2007 consensus projection process. Budget's \$8.1 million deficit projection is based on the January 2007 consensus process.

**Property taxes** Our \$14.5 million surplus projection is based on collection data and June growth assumption, which makes us feel total collections will more likely reach \$183 million, which is close to the 2005-06 collection total of \$185 million, rather than a total collection level of \$176 million, as predicted by the Budget Department.

**Casino wagering taxes** Our \$5.5 million deficit projection is based on collection data, and the fact that it appears Windsor's smoking ban did not attract the additional level of gamers on Detroit's side, as was first predicted. Most likely, Greektown's casino permanent construction process had something to do with this as well.

**Solid waste fee** Our \$13.4 million deficit projection is based on collection data. Budget predicts a \$7 million surplus, which seems to be based on the amount of billings. Coincidentally, the City is faced with a \$20 million shortfall if it cannot receive reimbursement from Wayne County on delinquent fees. As Council knows, there is state legislation pending that if passed would make it possible for Wayne County to sell bonds to reimburse the City for these delinquent fees. Obviously, any future proceeds from Wayne County would be credited to our accounts in next fiscal year.

**Utility user's taxes** Our \$2.5 million deficit projection is based on collections, even with June growth assumption. \$60 million in utility user's taxes was collected in 2005-06, however. If this same amount is collected again at the end of this fiscal year, Budget's \$4 million surplus projection could materialize.

**Sale of property** The Budget Department projects the entire budgeted amount of \$30 million will be collected in this revenue account. However, based on a memo from Planning and Development Department on property sales dated June 14<sup>th</sup>, we feel only \$23.4 million in collections will materialize by June 30<sup>th</sup>, as illustrated below, leaving a possible \$6.6 million deficit in this account.

Land sales closed to date	\$16,194,530
Less: Block Grant land sales	(1,973,442)
Land sales approved by Council	
PDD is working to close	9,135,505
Total Projected Land Sales	
for 2006-07	<u>\$23,356,593</u>



PDD's June 14<sup>th</sup> memo indicated land sales that are pending Council approval, or to be presented for Council approval, are Grayhaven (sales price: \$1,500,000), Harbor Hill (\$5,000,000), Camp Brighton (\$3,500,000), 441 Bagley (\$600,000), 5<sup>th</sup> Precinct (\$900,000) and Rackham Golf Course (\$6,000,000).

On June 27<sup>th</sup>, Council approved the \$3.5 million Camp Brighton and the \$988,000 5<sup>th</sup> Precinct sales, but the sales will not close by June 30<sup>th</sup>, and cannot be counted in the current fiscal year.

**Tunnel deal** As of the date of this report, the Council still does not have the documents necessary to review and approve this deal.

**All other revenues** These revenues include other taxes and assessments, interest and penalties on taxes, licenses, permits and inspection charges, sales and charges for services, earnings on investments, real estate rentals, concessions, etc.

Our \$76.2 million deficit projection is based on collections with June growth assumption. Budget vehemently opposes our estimate, but could not give us sufficient details to change our minds. The department also insists that much of the collection detail is recorded at year-end. Budget promises to work with us during 2007-08 to provide a detailed reconciliation process for other revenues.

We also note the draft 2005-06 CAFR shows a \$55 million shortfall in these accounts combined. So, we feel our estimate is more reasonable than the Budget Department's.

It should be noted that all General Fund revenues were analyzed.

**Appropriation estimate** Budget actually projects a \$90.8 million appropriation deficit for 2006-07, but this amount includes the prior year deficit of \$88 million. So, the department technically projects a \$2.8 million deficit in appropriations for 2006-07 operations.

Our \$70 million surplus estimate is based on May 31<sup>st</sup> expenditure data with projection to June 30<sup>th</sup> including assumptions and known adjustments. All General Fund appropriations were analyzed. We assume expenditure spending has been curtailed to control appropriation levels, which is good. A good question, however, is what amount of any outstanding expenditure will be made, encumbered, or accrued by June 30<sup>th</sup>? We will not get a better handle on this until the year-end accruals are made, which is usually by the end of July.

Therefore, we cautiously estimate the \$70 million appropriation surplus. A very small part of the surplus, approximately \$2 million, is due to vacancies, based on 37 vacant positions as of March 31<sup>st</sup>.



We hope this comprehensive budget analysis gives Council a reasonably accurate projection of the budget deficit as of June 30, 2007. We welcome the Budget and Finance Departments' reaction to it. As always, we are more than happy to readjust our projections if given information we missed or did not have from the Administration.

Council should note that during the development of the 2007-08 Budget the differences in surplus/deficit estimates for the current 2006-07 fiscal year were discussed, and agreement on some estimates, such as state revenue sharing, property taxes, and casino wagering taxes, was reached.

However, now that we are projecting a \$134 million budget deficit, which is \$45 million higher than the Prior Year's Deficit appropriation of \$88 million in the 2007-08 budget, it already appears the Administration should be working on a budget elimination plan to address the difference, if the Administration cannot prove our difference is incorrect.

**Obviously, getting the tunnel deal done as early as possible in the 2007-08 fiscal year, after of course your Honorable Body does its due diligence, is of utmost importance. If Council agrees with any deal, it should eliminate the need to issue the \$58 million fiscal stabilization bonds that are in the 2007-08 budget. And, any proceeds above \$58 million could be included in the budget elimination plan.**

It is advantageous for the Administration to present a plan as early as possible in the fiscal year. One, the identified savings are gained for the major part of the fiscal year, and two, most options remain available for inclusion in a savings plan.

For Council's edification, we also analyzed the court-required quarterly financial report prepared by Budget (Attachment I). This report is limited since it includes only five major revenues and seven departments. It also includes a look at fringes. Attachment II represents our analysis of the individual items in Attachment I, again using May 31<sup>st</sup> data with assumptions.

Assuming the expenditure pattern continues for the final month of the fiscal year this analysis indicates the combined appropriation surplus for the seven agencies will be in the area of \$22.6 million, as compared to a combined \$5.4 million deficit, as reported by the Budget Department.

On the revenue side, our best estimate for the five revenues indicates the potential for combined deficit of \$9.5 million, compared to the \$2.8 million surplus reported by the Budget Department. Please notice that our report also shows the projected \$5.5 million deficit in casino wagering taxes.

Additional items that but may affect the 2006-07 fiscal year end results and the 2007-08 Budget include:

Completed land sales, a tunnel deal or alternative, realization of the estimated fringe account savings, or actual fringe costs matching the budgeted amounts, and resolution of the solid waste collection fee problems.

While we can all hope that the optimistic estimates of the administration prove to be accurate, the continued stagnation of the Michigan economy that directly affects Detroit, and the apparent continued deterioration in revenue collections as recorded in the financial system, provides fair warning that the financial storms facing Detroit may not be over, and additional tough decisions in program reductions may still be on the near horizon.

#### Attachments

cc: Council Divisions  
Auditor General's Office  
Ombudsperson's Office  
Pamela Scales, Budget Director  
Renee Short, Budget Team Leader  
Roger Short, Chief Financial Officer  
Anthony Adams, Deputy Mayor  
Kandia Milton, Mayor's Office

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Attachment I

CITY OF DETROIT  
BUDGET DEPARTMENT

NOTE TO COUNCIL:  
THIS MATTER WILL BE  
BROUGHT INTO COMMITTEE  
ON MONDAY JUN - 4 2007

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DETROIT, MICHIGAN 48226  
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May 30, 2007

HONORABLE CITY COUNCIL:

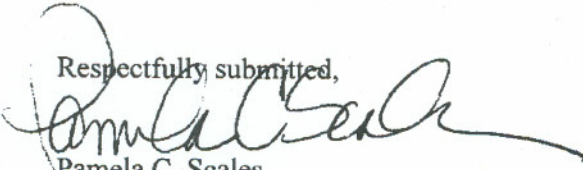
**RE: Quarterly Financial Report**

Attached please find the quarterly financial report for the period ending March 31, 2007.

As previously reported to your Honorable Body in April and during the Budget process, we continue to estimate a \$30.6 million deficit for FY 2006-07 as reflected in the Mayor's 2007-08 Recommended Budget. We continue to work diligently on the tunnel transaction and expect to submit completed documents in June.

I will be able to discuss this report, if necessary, at your convenience.

Respectfully submitted,

  
Pamela C. Scales  
Budget Director

Attachment

cc: Kwame M. Kilpatrick, Mayor  
Anthony Adams, Deputy Mayor  
Roger Short, Chief Financial Officer  
Kandia Milton, City Council Liaison

DETROIT  
CITY CLERK

2007 MAY 31 P 3:28

Copy given Council  
06-01-07 (RJ)

KWAME M. KILPATRICK, MAYOR

PART I  
GENERAL FUND  
MAJOR SOURCES OF REVENUE AND ESTIMATED SURPLUS/(DEFICIT)  
As of March 31, 2007

	Total Annual Budget	Amount Collected through 03/07/07	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Collected to Date		Estimated Year End Surplus/(Deficit) Manually Computed
						Current Year	Prior Year	
Municipal Income Tax	\$271,405,000	\$188,090,736	(\$15,463,014)	-7.60%	\$83,314,264	69.30%	72.13%	\$7,000,000
Current Year Property Tax	173,959,033	159,597,760	\$29,128,485	22.33%	14,361,273	91.74%	85.80%	0
Utility Users' Tax	56,000,000	28,097,179	(\$13,902,821)	-33.10%	27,902,821	50.17%	61.45%	4,000,000
State Equity Package								
Zoo	\$0	\$327,094	\$327,094	0.00%	(\$327,094)	0.00%	26.01%	\$0
Total	\$0	\$327,094	\$327,094	0.00%	(\$327,094)	0.00%	38.36%	\$0
State Revenue Sharing								
Sales Tax - Constitutional	\$66,000,000	\$32,693,604	(\$16,806,396)	-33.95%	\$33,306,396	49.54%	49.48%	(\$1,329,080)
Sales Tax - Statutory	216,559,208	106,253,190	(\$56,166,216)	-34.58%	110,306,018	49.06%	50.16%	(6,826,498)
Total	\$282,559,208	\$138,946,794	(\$72,972,612)	-34.43%	\$143,612,414	49.17%	50.00%	(\$8,155,578)
Grand Total	\$783,923,241	\$515,059,563	(\$72,882,868)	-12.40%	\$268,863,678	65.70%	66.69%	\$2,844,422



PART II  
GENERAL FUND APPROPRIATIONS  
(including fringe benefits)  
ESTIMATED SURPLUS/(DEFICIT)  
as of March 31, 2007

	Total Annual Budget	Amount Expended through March 7, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Expended to Date		Estimated Year End Surplus/(Deficit) Manually Computed
						Current Year	Prior Year	
DEPT OF PUBLIC WORKS	\$126,233,304	\$112,334,868	(\$17,659,890)	-18.65%	\$9,116,323	88.99%	91.70%	(\$3,808,242)
FINANCE	34,819,665	23,375,739	2,739,010	10.49%	10,706,264	67.13%	60.08%	\$1,176,000
FIRE	172,388,456	135,635,328	(6,343,986)	-4.91%	34,607,765	78.68%	79.92%	(\$1,789,760)
HEALTH	28,999,722	13,871,744	7,878,048	36.22%	13,601,960	47.83%	59.73%	\$2,248,464
POLICE	399,515,665	288,055,285	11,581,463	3.87%	109,604,069	72.10%	84.64%	(\$3,894,212)
PUBLIC LIGHTING	66,334,668	41,967,116	7,783,885	15.65%	11,545,267	63.27%	89.21%	\$2,944,000
RECREATION	20,039,567	15,753,542	(723,867)	-4.82%	1,419,216	78.61%	83.84%	(\$2,264,678)
TOTAL	\$848,331,048	\$630,993,622	\$5,254,663	0.83%	\$190,600,864	74.38%	83.07%	(\$5,388,428)

NOTE: Fringe Benefits (entire General Fund, excluding pensions) are estimated to surplus/deficit in the amount of (\$0).

PART I  
GENERAL FUND  
MAJOR SOURCES OF REVENUES AND ESTIMATED SUPRLUS/DEFICIT  
at May 31, 2007  
Prepared by the City Council Fiscal Analysis Division

Column Calculation	B	C	D C x %	E	F E - D	G F / D	H C - E	I E / C	J	K
	Total Annual Budget	Total Amended Budget	Budget for Report Period 91.6%	Collected through May 31, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Collected to Date Current Year	Prior Year	Surplus/(Deficit) Estimate
Municipal Income Tax	\$271,405,000	\$271,405,000	\$248,606,980	\$239,588,492	(\$9,018,488)	-3.63%	May 31, 2007	88.28%	94.53%	(\$11,200,000)
Current Year Property Tax	173,959,033	176,459,033	161,636,474	159,626,556	(2,009,918)	-1.24%	16,832,477	90.46%	86.55%	\$14,500,000
Utility Users' Tax	56,000,000	56,000,000	51,296,000	42,165,282	(9,130,718)	-17.80%	13,834,718	75.30%	86.72%	(\$2,500,000)
State Equity Package										
Historical	\$0	\$0	\$0	\$0	\$0	#DIV/0!	\$0	#DIV/0!		\$0
Zoological	0	0	0	327,094	327,094	#DIV/0!	(327,094)	#DIV/0!	41.54%	\$357,090
Total	\$0	\$0	\$0	\$327,094	\$327,094	#DIV/0!	(\$327,094)	#DIV/0!	41.54%	\$357,090
State Revenue Sharing										
Sales Tax - Constitutional	\$66,000,000	\$66,000,000	\$60,456,000	\$42,897,566	(\$17,558,434)	-29.04%	23,102,434	65.00%	65.62%	(\$2,500,000)
Sales Tax - Statutory	216,559,208	216,559,208	198,368,235	139,881,100	(\$58,487,135)	-29.48%	76,678,108	64.59%	66.79%	(\$8,200,000)
Total	\$282,559,208	\$282,559,208	\$258,824,235	\$182,778,666	(\$76,045,569)	-29.38%	\$99,780,542	64.69%	66.51%	(\$10,700,000)
Grand Total	\$783,923,241	\$786,423,241	\$720,363,689	\$624,486,090	(\$95,877,599)	-13.31%	\$161,937,151	79.41%	82.14%	(\$9,542,910)
Casino Gaming Fee	\$184,850,000	\$184,850,000	\$169,322,600	\$164,073,778	(\$5,248,822)	-3.10%	\$20,776,222	88.76%	93.39%	(\$5,500,000)



PART II  
GENERAL FUND APPROPRIATIONS  
(including fringe benefits)  
ESTIMATED SURPLUS/(DEFICIT)  
at May 31, 2007  
Prepared by the City Council Fiscal Analysis Division

Column Calculation	B	C	D C x %	E	F D - E	G F / D	H	I C-E-H	J E/C	K	K
	Total Annual Budget	Total Amended Budget	Budget for Report Period 91.6%	Amount Expended through May 31, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Encumbrances at May 31, 2007	Remaining Annual Budget	% Expended to Date Current Year	Prior Year	Estimate Calculated Surplus/(Deficit)
DEPARTMENT OF PUBLIC WORKS	\$120,628,362	\$126,079,491	\$115,488,814	121,194,073.65	(\$5,705,260)	98.10%	3,453,930	\$1,431,487	96.13%	98.10%	(\$600,000)
FINANCE	34,033,935	34,819,665	31,894,813	27,949,550.05	\$3,945,263	12.37%	521,040	6,349,075	80.27%	74.70%	\$4,600,000
FIRE	170,833,522	172,388,456	157,907,826	163,281,447.13	(\$5,373,621)	-3.40%	526,002	8,581,007	94.72%	99.90%	(\$1,500,000)
HEALTH	27,693,780	28,999,722	26,563,745	20,937,575.07	\$5,626,170	21.18%	498,126	7,564,021	72.20%	73.20%	\$6,300,000
POLICE	394,799,994	399,515,665	365,956,349	363,435,436.39	\$2,520,913	0.69%	1,787,868	34,292,361	90.97%	102.00%	\$11,900,000
PUBLIC LIGHTING	63,468,819	66,804,412	61,192,841	50,482,144.86	\$10,710,697	17.50%	9,813,683	6,508,585	75.57%	100.90%	\$3,400,000
RECREATION	17,767,981	20,039,567	18,356,243	18,585,899.65	(\$229,656)	-1.25%	1,809,060	(355,393)	92.75%	100.10%	(\$1,500,000)
	\$829,226,393	\$848,646,978	\$777,360,632	\$765,866,127	\$11,494,505	1.48%	18,409,708	\$82,780,851	90.25%	81.07%	\$22,600,000